
From: Shappell, Kathleen - PA
Sent: Thursday, February 10, 2011 2:30 PM
To: Glassner, Adam - PA
Cc: Hales, Mark; Gerner, Lisa; Young, James; Konowal, Lynn - PA; Rock, Nikki - PA; Grosso, Tim - PA; Glassner, Adam - PA; Whitlinger, Jim - PA; Ferguson, Erik - PA; Cortese, Joe - PA; Towers, Thomas - PA
Subject: RE: MSR Swap settlement
Attachments: MSR Swap between GMACM and Ally Bank.ppt

Adam - Per your request, see attached documentation. It includes an overview of the MSR swap, components, accounting and process flows. Please let Tim Grosso and I know if there is additional information you are looking for on this matter.

Thanks, Kathy

Kathy Shappell | GMAC ResCap | Business Excellence Support Team | Phone: 215.734.5805 | Mobile: 215.499.7603

From: Ferguson, Erik - PA
Sent: Tuesday, January 25, 2011 8:30 AM
To: Cortese, Joe - PA
Cc: Hales, Mark; Gerner, Lisa; Young, James; Konowal, Lynn - PA; Rock, Nikki - PA; Grosso, Tim - PA; Shappell, Kathleen - PA; Glassner, Adam - PA; Whitlinger, Jim - PA
Subject: RE: MSR Swap settlement

Joe, feel free to reach out directly to engage Tim Grosso... thanks!

From: Cortese, Joe - PA
Sent: Tuesday, January 25, 2011 8:23 AM
To: Glassner, Adam - PA; Whitlinger, Jim - PA
Cc: Hales, Mark; Gerner, Lisa; Young, James; Ferguson, Erik - PA; Konowal, Lynn - PA; Rock, Nikki - PA
Subject: Re: MSR Swap settlement

Adam,

My team, along with Nikki's, perform the daily settlement, so not a problem to evidence. We may already have procedures drafted, but we will get with Erik nonetheless.

Can I ask who is the audience?

Joe

From: Glassner, Adam - PA
To: Whitlinger, Jim - PA; Cortese, Joe - PA
Cc: Hales, Mark; Gerner, Lisa; Young, James; Ferguson, Erik - PA
Sent: Tue Jan 25 06:44:55 2011
Subject: MSR Swap settlement

Whit/Joe, could you guys work together to confirm and evidence the confirmation that the daily settlement of the MSR swap with cash?

Additionally, could you guys engage someone from Erik Ferguson's team to document the existing process and procedures along with identifying responsible parties and functions in each group. I know everyone is stretched, but I would like to make this a priority in the short-term.

Thanks in advance.
adg

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MSR Swap between GMACM and Ally Bank

February 2011

MSR Swap Between GMACM and Ally Bank

Overview

- The mortgage division of Ally Bank (Bank) directly originates mortgage loans through its correspondent, broker, and retail origination channels and classifies these loans as either held for sale (HFS) or held for investment (HFI)*. At the present time, the majority of originated loans are classified as HFS, and are all agency (FNMA; FHLMC; GNMA) eligible at the time of origination. Loans classified as HFS are governed by a Master Mortgage Loan Purchase and Sale Agreement (MMLPSA) that the Bank has entered into with its affiliate, GMAC Mortgage (GMACM), a direct subsidiary of ResCap, LLC. The MMLPSA was executed in 2007 and was restated and amended in July 2008. This agreement serves as a forward sale commitment between the Bank and GMACM, where GMACM will purchase loans classified as HFS on the Bank's balance sheet on a mandatory delivery, non-recourse basis. Loans are sold at the Bank's carrying value and as such the Bank does not record a gain/loss on sale from the whole loan component of the sale. However, loans are either sold servicing retained or servicing released, depending upon the lender of record for the loan and the type of loan, and if servicing retained, the Bank will record a gain on sale attributed to the capitalization of the mortgage servicing right (MSR).
- GMACM will in turn pool the loans purchased from the Bank and sell them to either FNMA, FHLMC, or GNMA. The transfer of loans to GMACM occurs simultaneously with the sale of the loans from GMACM to the agencies. GMACM, as seller, records the gain on sale and is considered the seller of record. Note that for loans sold to FNMA & FHLMC, typically the Bank holds the MSR and is known to the agency as the Servicer, although GMACM sub-services the loans for the Bank in exchange for a fee. The Bank is not an eligible servicer to GNMA, and therefore does not hold the MSR associated with government/FHA loans that are sold to GNMA that may have been initially originated by the Bank.

* Excluding 2 states where Bank cannot originate loans

MSR Swap Between GMACM and Ally Bank Overview (cont.)

- Concurrent with the Bank MSR asset, the Bank has entered into two hedge agreements with GMACM. The first hedge, referred to as the ISDA Master Agreement (FMV) or "FMV", shifts all the economics of the MSR asset from the Bank to GMACM, thus effectively transferring all risk and reward of the MSR out of the Bank. This hedge agreement covers the gain from the capitalization of the MSR as well as the change in valuation (positive or negative) driven by the regular mark-to-market of the existing MSR asset in exchange for LIBOR + 325 bps (as calculated on the average daily balance of the MSR). The second hedge, referred to as the ISDA Master Agreement (Net Funding) or "Net Funding", swaps the net revenue and expenses earned by the Bank as named servicer of the MSR portfolio for a fixed LIBOR + 325 bps leg based on the average servicing advance and receivable balance. So, effectively post hedge recordation, the only P&L impact to the Bank for holding the MSR asset and servicing cash flow stream is the LIBOR + 325 bps revenue.
- The MSR asset is marked on a daily basis for changes in interest rates. This change in valuation, either positive (Bank owes GMACM) or negative (GMACM owes Bank) is settled on a daily basis by transfer of cash on the following business day.
- At month end, a full mark of the MSR asset is performed, comprised primarily of changes in assumptions, economic amortization and any benchmarking adjustments or management assessments. Additionally, the gain from the capitalization of the MSR, the net revenue and expenses earned by the Bank as servicer, and the LIBOR + 325 bps components are calculated and the swap receivable/liability is recorded. These items are settled via cash approximately 4 days after month end.

MSR Swap Between GMACM and Ally Bank Overview (cont.)

- Reg W requires receivables to affiliates to be collateralized. As of 12/31, the affiliate counterparty credit exposure related to the MSR swap was approximately \$61mm. This is calculated by looking back on a rolling three months of the daily MTM settlement which includes MSR, pipeline and inventory (presumably offsetting fair value changes in the MSR). A 2 standard deviation is then applied for a 95% confidence rate to determine necessary collateral for GMACM to post to the Bank. Said another way, the resulting collateral should be sufficient to cover the daily exposure to GMACM 95% of the time. The collateral balance is reviewed weekly and GMACM will post more collateral as necessary.

MSR Swap Between GMACM and Ally Bank Summary of Components

The list below describes each component of the swap*:

Item	Component	Frequency of Exchange	Methodology	Which ISDA/Contract?	Example/Amount from December	Flow of Funds	Comments
1)	Capitalization of New Servicing	Monthly	Extract the income statement impact of the capitalized base and excess servicing fee (less SRP)	FMV Swap	\$ 48,074,485	Bank Owes Mortgage	Base servicing fee is not currently capitalized daily; estimation of excess sf is recorded by GLS daily
2)	Servicing Fees Collected by Bank	Monthly	Query of All Daily Postings	Net Funding Swap	\$ 31,546,585	Bank Owes Mortgage	Servicing fee, late fee, ancillary income less subservicing fee paid to Mtg (approximately \$2.0mm)
3)	Fair Value of MSR Due to Interest Rates	Daily with Monthly True-Up	Daily Valuation of MSR Asset by Entity. All market rates updated			Mortgage Pays Bank (Note Bank paid Mortgage \$ 168mm daily as compared to total fv change per RVA of \$127 at month end)	Daily wires are sent for change in rates. When month end valuation is completed, the variance due to new files/new estimation of payoffs, assumption updates is sent by business day 4
4)	Funding Fee - L + 3.25% on Balance Sheet	Monthly	Calculate ADB at month end of all MSR, Servicing Receivable, Servicing Advances	Both Net Funding Swap and FMV Swap	\$ 5,236,204	Mortgage pays Bank	L + 3.25% *ADB/360 * # of days in month
5)	Collateral held by Bank	As calculation requires (reviewed weekly)	Compliance with 23B and Reg W	Agreement in process	\$ 60,987,104	Mortgage pays Bank	This is to cover affiliate counterparty exposure. It is calculated using a rolling 3 months based on net daily settlement due Bank/due GMACM with a 2 standard deviations applied. NOTE: The Dodd-Frank Act provides new governance for affiliate transactions and collateral requirements effective July 2012. Collateral will need to be reviewed and potentially adjusted under the act. See Appendix for details.

*Agreements and associated collateral are currently under review and subject to change

MSR Swap Between GMACM and Ally Bank Bank Accounting for Transactions

- 1) **Capitalization of New Servicing** - Ally Bank sells loans to GMACM on a servicing retained basis. The MSR is recognized at this time at fair value. Contracted under the MMLPSA.

DR	Mortgage Servicing Right Asset
CR	HFS Service Release Premium
DR/CR	Gain/(Loss) on Sale of Mortgage Loans

- 2) **Servicing Fees Collected by Bank** - Record service fee and servicing related fee income, net of sub-servicing fees paid to GMACM.

DR	Accounts Receivable
CR	Service Fee Income

- 3) **FV of MSR Daily** – MTM the MSR for Interest Rate Fluctuations. One day delay.

<u>MTM</u>	DR/CR	MSR-Valuation
	DR/CR	FAS 156 MSR MTM – 1st Mtg
<u>Swap</u>	DR/CR	Due to/from GMACM
	DR/CR	Gain/(Loss) on Bank MSR Swap

MSR Swap Between GMACM and Ally Bank Bank Accounting for Transactions (cont.)

4) FV of MSR at Month End - Revaluation of the MSR asset at month end. Contracted under the FMV Swap.

MTM

DR/CR MSR-Valu Input/Assump-1st Mtg
DR/CR MSR-Other changes in FV-1st Mtg
DR/CR FAS 156 MSR MTM – 1st Mtg

Swap

DR/CR Due to/from GMACM
DR/CR Gain/(Loss) on Bank MSR Swap

5) Service Fee Swap - Under the hedge agreement with GMACM, the net service fee revenue is swapped to GMACM. Contracted under the Net Funding swap

DR Gain/(Loss) on MSR swap
CR Derivative liability due to GMACM

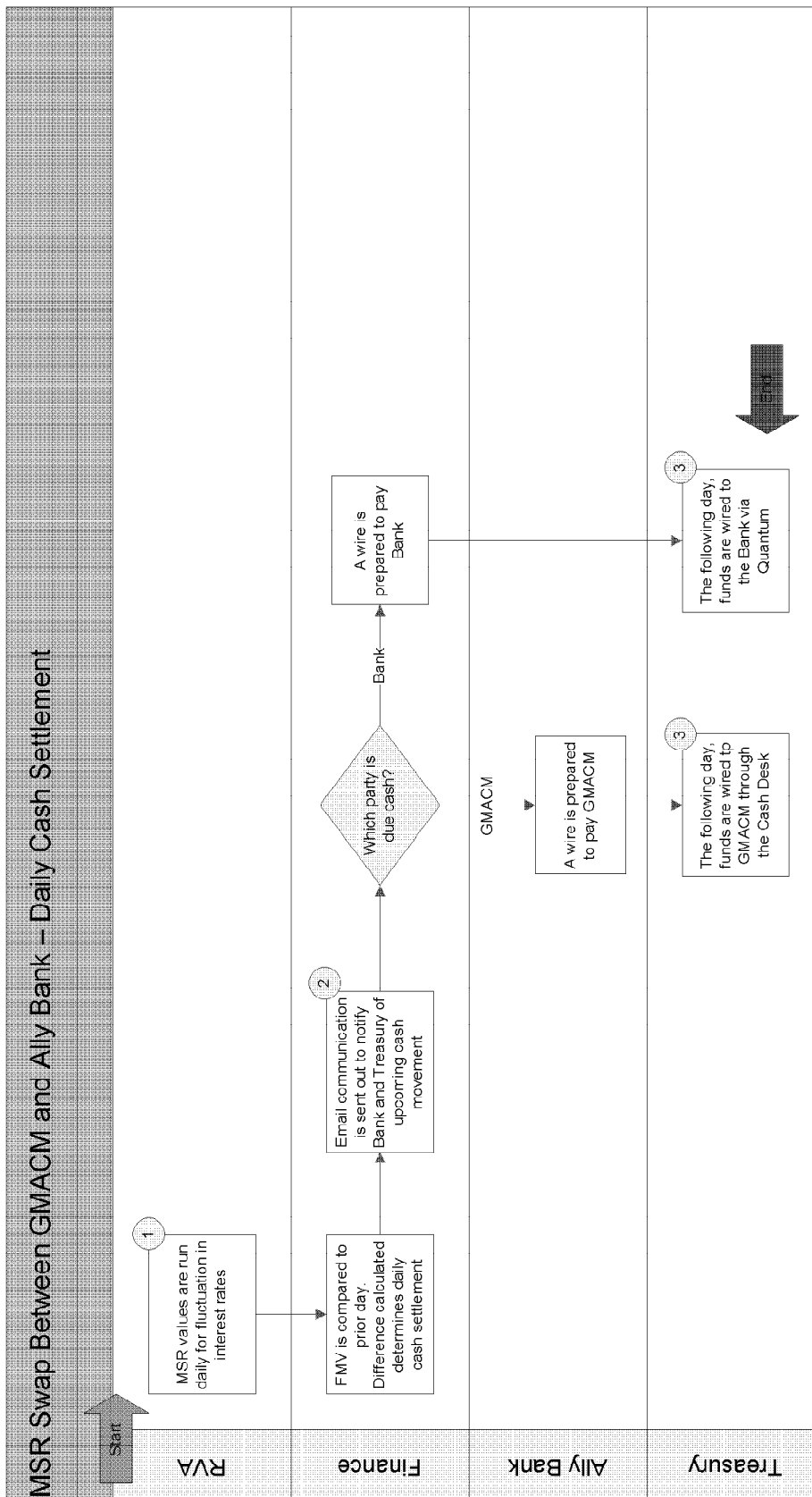
6) Funding Fee - Under the hedge agreement with GMACM, the Bank receives LIBOR +325 on the net MSR asset. Contracted under the Net Funding swap.

DR Due to/from GMACM
CR Gain/(Loss) on MSR swap

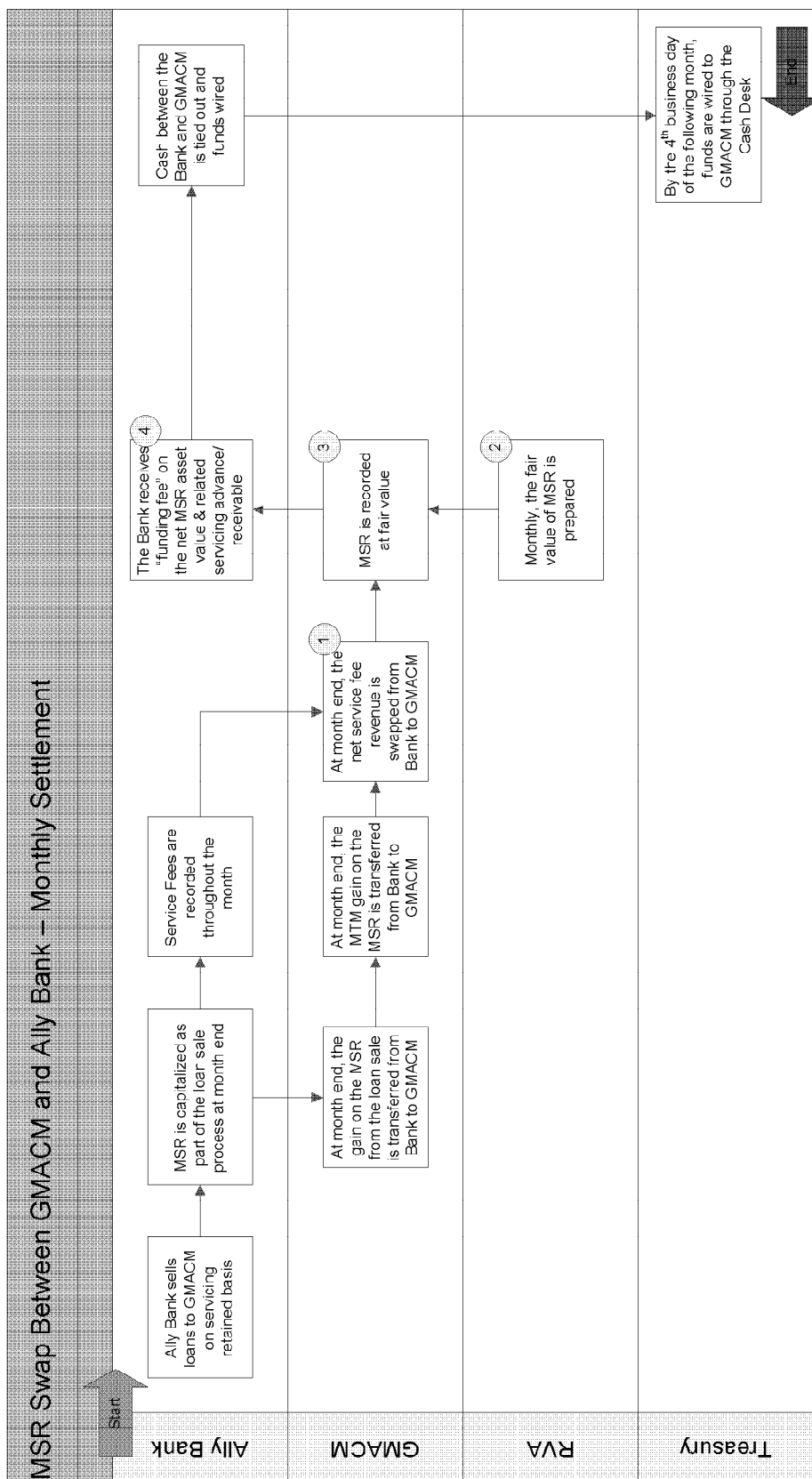
7) Exchange of Cash – Daily and monthly

DR/CR Cash
DR/CR Due to/from GMACM

MSR Swap Between GMACM and Ally Bank Daily Process











MSR Swap Between GMACM and Ally Bank Monthly Process



NOTES:

- 1) Servicing fee, late fee, ancillary income less subservicing fee paid to Mortgage
- 2) When month end valuation is complete, the variance due to new files/new estimation of payoffs, assumption updates is sent by business day 4
- 3) The difference in the MSR fair value (new caps, payoffs, benchmarking, etc.) is estimated for month end close as new monthly tapes are not available until mid month. Once actual data becomes available the difference is settled via cash.
- 4) $L + 3.25\% \cdot ADB/360 \cdot \# \text{ of days in month}$

Appendix

1. Details on the Funding Fee – Prepared for FDIC June 2010
 Letter to FDIC - June 2010
2. Daily MTM Settlement Summary – For calculating 2010 collateral on rolling 3 month cash movement
 Rolling 3 Month Cash Movement
3. Ally Bank 23 A Summary – For reporting collateral at 12/31/2010
 Ally Bank 23A 12-31-2010
4. Accounting File – Used to prepare 12/31/2010 journal entries
 Bank Accounting Transactions - 12/31/2010
5. ISDA/Contracts – Latest agreements in place (need to obtain)
 GMACM-GMACB Master Agt Schedule
 Schedule to ISDA Master Agt - FMV 8-31-C
 Schedule to ISDA Master Agt - Net Funding
6. Dodd-Frank – Legislation on affiliate transactions
 Dodd-Frank Affiliate Transactions